

Arizona Daily Star

Audit raises red flag on Rosemont's parent firm

March 31, 2013 12:00 am • [Tony Davis Arizona Daily Star](#)

An auditor for Rosemont Copper's parent company has put up what outside experts call a red flag indicating significant financial issues that could jeopardize the company's future.

Officials of the accounting firm Ernst & Young wrote last week that they have "substantial doubt" about Augusta Resource Corp.'s ability to continue as a going concern. That's due to a \$9.72 million loss in 2012 and the likelihood that Augusta will need to spend more money on the proposed \$1.2 billion Rosemont Mine this year than it has in working capital, they said. The warning appeared in Augusta's year-end financial report for 2012.

Augusta officials say they continue to have confidence in their ability to raise capital and have no qualms about the company's future. The company voluntarily put the same statement made by the auditors in its financial reports since the second quarter of 2012, which is why auditors included it in the year-end report, said Letitia Cornacchia, Augusta's vice president for investor relations.

This is the first time the auditors have issued such a warning in an annual report since the mine was proposed in the mid-2000s. The open-pit copper mine would be in the Santa Rita Mountains southeast of Tucson.

The auditors' doubts generally trace back to the delays the mining company has had getting permits to start construction - although the audit itself doesn't discuss permitting issues.

Cornacchia said the report shows that auditors actually agree with the mining company's position, because if they didn't, the report would be "qualified," indicating uncertainties or disagreements with a client. Such statements are common for mining companies in the development stage, she said. Ernst & Young declined to answer questions about its audit.

"We have always been able to fund our Rosemont project in the past. Now is no exception," Cornacchia said. "Rosemont is without question one of the best new copper development projects in the world. We plan to raise over a billion dollars this year to finance its construction. It is precisely that fact that requires us to disclose as we have done."

Chuck Landes, a vice president for the American Institute of Certified Public Accountants, called the auditor's finding of substantial doubt "very significant and very serious." Dan Dhaliwal, head of the University of Arizona's accounting department, called the audit "a very significant warning to the investment community" about the

company's financial future if it doesn't get mining permits because Rosemont is Augusta's only major project.

"Think of it as a red flag, an early warning," said Landes, whose institute has nearly 386,000 members in 128 countries.

In the past year, the company has obtained three permits from Arizona government. Two, for air quality and groundwater protection, are under appeal by opponents. But the key federal approval needed, from the U.S. Forest Service, has come more slowly. The service first repeatedly delayed release of the mine's draft environmental impact statement and then, last November, indefinitely delayed a final environmental statement and decision.

The mining company said in its own, year-end analysis last week that it expects final approval from the Forest Service by the end of June.

Christopher Chang, a Toronto analyst who follows Augusta, predicts final approval between July and September.

The Army Corps of Engineers can't make a decision on its separate permit for the mine until the Forest Service issues its final environmental statement.

On Friday, Coronado National Forest Supervisor Jim Upchurch said he still has no timetable for a decision because he's waiting for several key outstanding issues to come together from other parties involved in the mine review: endangered species, tribal concerns and land mitigation. Until he sends a review copy of the final environmental statement to several cooperating government agencies, and gets their comments on it, he also can't say whether he'll prepare a supplemental environmental statement, as the Environmental Protection Agency has requested.

"I have all these outstanding pieces I'm not directly involved in or in control of. I have to wait until they all come together," Upchurch said.

As the permitting has dragged on, the mining company has had to keep raising money to pursue permitting and to pay for other, development-rated expenses, all while earning no revenue because mining hasn't started.

Augusta has lost money every year since 2007 except for 2011, when the company earned a \$15.65 million profit. That profit was due mainly to non-cash gains from the sale of a 3.84 percent interest in the mine to its Korean partner United Copper and Moly LLC, Ernst & Young said.

Due to a \$40 million loan last year from a British hedge fund, Augusta had \$28.77 million in working capital available in December 2012, compared to a \$17.63 million working capital deficit a year ago, the auditors said.

The company's plan to spend more than that in cash in 2013 indicates "a material uncertainty" raising doubts about the company's future, Ernst & Young said. Augusta said in its report that it will spend \$112 million in 2013.

Augusta's planned expenditures only exceed its working capital today because it hasn't yet obtained its permits and obtained more construction financing, the company's Cornacchia said. She said the company is going to time its completion of financing to the period after it gets all its permits this year, whereas in the past it had said it expected to get financing sooner.

"Once project financing is in place, we will remove this statement in our financial report," Cornacchia said of the "going concern" warning. "Until then we will include this statement in our financials. "

She said that since the audit was released Monday, the company's stock price has been in line with its peers among smaller mining companies, "which demonstrates that this is not a significant event." Augusta's price on the American Stock Exchange dropped four cents to \$2.56 a share between Monday and Thursday.

The UA's Dhaliwal, however, said stock investors may have already priced in the audit's warnings in advance of the audit's release by keeping stock prices down - since they likely were aware of many of the financial and permitting issues facing the mine. Since the price is well below that of a couple of years ago when it hit \$5, although it's close to \$1 above its price of a year ago, the stock price has probably dropped in response to investors' low expectations that permits will be issued soon, he said.

"The investment community has already decided this company is likely to have serious problems if they don't get their permits," Dhaliwal said.

"We have always been able to fund our Rosemont project in the past. Now is no exception."

Letitia Cornacchia,

Augusta's vice president for investor relations

"The investment community has already decided this company is likely to have serious problems if they don't get their permits."

Dan Dhaliwal,

head of the University of Arizona's accounting department

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Augusta Resource's independent auditor warns there is "substantial doubt" over its "ability to continue as a going concern"

by admin2

Augusta Resource Corporation's independent auditing firm Monday alerted investors that the Vancouver-based speculative mining company that is seeking permits to build the Rosemont copper project faces "material uncertainty" about its ability to continue to operate.

The accounting firm of Ernst & Young stated that the combination of a \$9.7 million loss in 2012 and projected cash expenditures in 2013 that exceed the company's reserves, leaves Augusta in a precarious position.

"These conditions...indicate the existence of material uncertainty that raises substantial doubt about the Company's ability to continue as a going concern," the firm stated.

Ernst & Young issued the warning under the heading of "Emphasis of matter" in its cover letter accompanying the release of [Augusta's 2012 financial statement](#).

Augusta nearly ran out of cash last fall but secured a \$40 million loan from RK Mine Trust I in October. Augusta now owes RK Mine Trust \$87 million that comes due in July 2014.

Even with the \$40 million infusion, Augusta reported only \$29 million in cash as of Dec. 31, 2012. Augusta spent \$37.3 million in 2012 on development costs for the Rosemont copper project through its subsidiary, Rosemont Copper Company. Augusta spent \$50 million on the mining project in 2011.

Augusta warns investors that its cash outlook is extremely tight in its [Management Discussion & Analysis](#) report that was released with the financial statements.

"Forecasted cash requirements for the next twelve months require significant expenditures on the Rosemont project, which exceeds the working capital after giving effect to the additional loan from Red Kite.

"This factor indicates the existence of a material uncertainty that raises substantial doubt about the Company's ability to continue as a going concern and the Company's ability to continue is dependent on the Company raising additional debt or equity financing.

"The Company is currently discussing project financing with a number of lending institutions and believes that such discussions will result in the Company obtaining the project financing required to fund the construction of the Rosemont project.

"However there is no assurance that such financing will be obtained or obtained on commercially favorable terms.

At the current rate of spending, Augusta will run out of cash by early in the fourth quarter.

The company, however, has \$336 million from two sources that would become available if, and when, the company obtains final permitting approvals to begin construction. Augusta is seeking state and federal permits to construct the mine located in the Santa Rita Mountains on the Coronado National Forest southeast of Tucson.

Augusta's joint venture partner in the Rosemont project, Korea-based United Copper and Moly, would invest \$106 million in development costs. In addition, Silver Wheaton has pledged \$230 million in exchange for the right to purchase silver and gold from the project at a set price.

The company states it expects to receive final approval from the U.S. Forest Service in the second quarter of this year with construction beginning by the end of the year. Augusta states it expects to obtain long-term debt financing at the same time it obtains final permits to move forward with mine construction.

Augusta states in its Annual Information Form, that 65 percent of the \$1.25 billion project will be financed by the Silver Wheaton off-take agreement, United Copper's joint venture investment and still unsecured bank debt financing.

"Any delays in the permitting process or any unplanned expenditures may require the Company to raise additional funds," the Company states in its MD&A report.

The Forest Service announced last November that it has no set schedule to release a Final Environmental Impact Statement and Record of Decision needed prior to construction of the mine.

In addition, the U.S. Army Corps of Engineers must issue a Clean Water Permit. The Army Corps is not expected to make a decision on the water permit until after the Final EIS is released. The U.S. Environmental Protection Agency, which last year issued two letters sharply criticizing the project, has veto power over any permit issued by the Army Corps.

Coronado National Forest Supervisor Jim Upchurch said last winter that before the Final EIS is released, the document will be reviewed by the regional headquarters in Albuquerque. It is unknown how long such a review could last, or if it has even begun.

INDEPENDENT AUDITORS' REPORT OF REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Augusta Resource Corporation

We have audited the accompanying consolidated financial statements of **Augusta Resource Corporation**, which comprise the consolidated statements of financial position as at December 31, 2012 and 2011, and the consolidated statements of comprehensive profit (loss), changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Augusta Resource Corporation** as at December 31, 2012 and 2011, and its financial performance and its cash flows for the years then ended, in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 1 in the financial statements which indicates that the Company incurred a net comprehensive loss of \$9.72 million during the year ended December 31, 2012. In addition, the Company's forecast cash requirements for the next twelve months require significant expenditures on the Rosemont project, which exceed the Company's working capital. These conditions, along with other

matters set forth in Note 1, indicate the existence of a material uncertainty that raises substantial doubt about the Company's ability to continue as a going concern.

Other matter

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), **Augusta Resource Corporation's** internal control over financial reporting as of December 31, 2012, based on the criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 25, 2013 expressed an unqualified opinion on **Augusta Resource Corporation's** internal control over financial reporting.

Ernst & Young LLP

Vancouver, Canada,
March 25, 2013.

Chartered Accountants

WORLD

September 2007 • Issue 11

MINING STOCKS

The definitive guide for equity investors

Gold
is
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World's top mining investment title – includes **36** in-depth profiles

Augusta's Arizona jewel on target to be big player in copper league

ONE of the mining industry's most interesting stories is taking shape in southern Arizona with the development of the sizeable Rosemont Copper Project by Vancouver-based Augusta Resource Corporation. The project, 50 km southeast of Tucson, is mainly a copper property with significant additional values for molybdenum and silver.

What makes the Rosemont Project particularly noteworthy is the sheer magnitude of what Augusta is set to accomplish. According to its final feasibility study (August 2007), the mine would mill 75,000 short tons daily over an 18.2-year mine life, accounting for a total mineral reserve of 493 Mt at 0.47% copper, 0.015% moly, and 0.12 oz/t silver in sulphide ore alone. The study was based on the NI 43-101-compliant resource estimate published last March, which reported a resource of more than 10,000 Mlb of copper equivalents. The mine would be the third- or fourth-largest copper producer in the US, accounting for 5-10% of US copper needs.

President and CEO Gil Clausen notes that the project could become important, not just as a potentially profit-

able mining venture, but as a strategic domestic asset to the US, noting in a recent press release, that "copper production in the US is declining as the existing major copper deposits in the southwest become exhausted, yet the US continues to demand the products that utilise this strategic metal. This gap between domestic demand and supply has led to a growing dependency on substantial imports of copper," later adding that there is a "critical need for new sources of domestic copper".

HISTORICAL MINING DISTRICT

The Rosemont Project region has had a lengthy history of mining activity, beginning back in the 1880s when production began from both sides of the Santa Rita Mountains. That era of production came to an end in 1951, having resulted in a total of 227,300 t of ore being processed, containing 17.3 Mlb of copper, 1.1 Mlb of zinc and 180,760 oz of silver.

Anaconda Mining acquired the claims in 1963 and carried out a major exploration programme that identified Rosemont as a large copper mineral resource

and also advanced two other targets - Peach-Elgin and Broad Top Butte. During the Anaconda years, a total of 297,321 ft of drilling took place, of which 232,000 ft focused on the Rosemont deposit.

American Smelting and Refining Co (ASARCO) bought the project in 1988 and carried out minimal exploration work at Rosemont and Peach-Elgin before selling the properties to real estate interests. In 2004, Augusta Resource later acquired the Rosemont Project from a real estate developer in 2005, after Pima County declined an offer to buy the land for conservation.

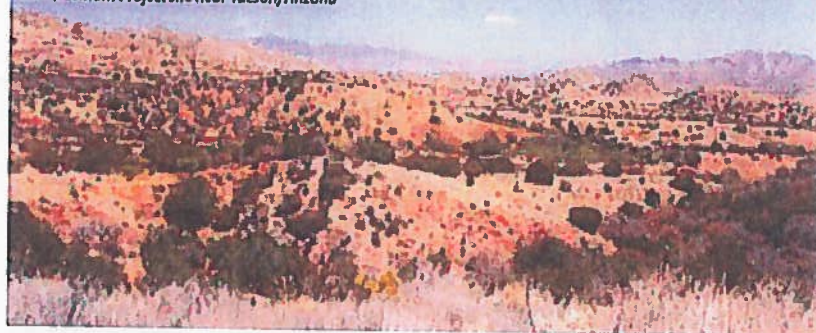
STRATEGIC LAND PACKAGE

The company has accumulated a land package covering some 14,000 acres, plus a further 20,000 acres of grazing lease for the cattle ranch it will continue to run throughout the life of mine. Included in their holdings are the Rosemont deposit plus Peach-Elgin, Broad Top Butte and also the Copper World prospects. During a recent interview, Mr Clausen noted that, although developing Rosemont was clearly the company's primary focus, the three other properties offered opportunities for further exploration, especially including Broad Top Butte as the Rosemont deposit is open to the north and east directly toward where Broad Top is located.

The Rosemont Project itself lies on the east side of the Santa Rita Mountains near several large porphyry-type producing copper mines operated by Freeport McMoRan and Asarco. The area boasts an excellent infrastructure with paved roads leading to both sides of the Santa Ritas and gravel roads leading directly to the project. It lies less than 10 miles from major electric transmission lines and rail transportation is also near the project.

Water resources are already being acquired and delivered by the Central Arizona Project (CAP) for storage in the greater Tucson aquifer ahead of actual

The Rosemont Project site near Tucson, Arizona



THE TEAM

GIL CLAUSEN

President and CEO
Before joining Augusta Resource Corporation, Mr Clausen was executive vice-president of mining for Washington Group International based out of Denver, Colorado.

In this role, he was responsible for developing new business, executing the business unit growth strategy, and supporting domestic and international operations for several large open-pit coal, metals and industrial minerals mines. Mr Clausen had previously worked with Stillwater Mining as vice president of operations, where he managed a major capital expansion project and implemented a three-year growth plan that doubled mining production and developed reserves. Earlier in his career, Mr Clausen held various positions with Placer Dome, including mine superintendent at Gibraltar Mine, general manager at the Endako Mine, and general manager at the Detour Lake Mine. Mr Clausen holds a BSc and masters degree in mining engineering from Queens University.



BRUCE NICOL

Senior vice president and CFO
Mr Nicol is a chartered accountant with 15 years' professional experience in the international mining industry, having worked with Placer Dome as an officer and in senior financial roles

before his appointment with Augusta. Mr Nicol was appointed acting CFO of Placer Dome in February 2006. Preceding this appointment, he served as vice president and controller of Placer Dome since 1996. Mr Nicol joined Placer Dome in 1991, as manager of corporate accounting and was promoted to controller of Placer Dome Canada Ltd in 1994. Before his employment with Placer Dome, he had careers with PWA Corporation/Canadian Airlines as well as Price Waterhouse. Mr Nicol obtained his BCom degree from the University of British Columbia and is a member of the Canadian Institute of Chartered Accountants.



JAMIE STURGESS

Vice president

Mr Sturgess has over 25 years' industry experience in the areas of environmental management, regulatory compliance, pollution control and project management.

His career has spanned from research field biologist to site environmental manager for large mining operations, and included terms as vice president, environmental affairs for Cyprus Climax Metals Company, and president of EnviroNet, an environmental engineering and consulting business. Mr Sturgess was formerly a senior associate with Stantec Consulting in the environmental management group, and did major permitting work in Arizona for the past 15 years. He has earned his masters in resource management ecology and his BSc in renewable natural-resource management from the University of California at Davis.



production. Augusta will have stored a three-year supply by the end of this year, with the intention of importing 105% of the water required for the project. Mr Clausen notes that buying and storing excess CAP water in advance is one of the most important components of the mine plan, "not only ensuring we won't deplete water from Southern Arizona, but actually leaving more than we will use".

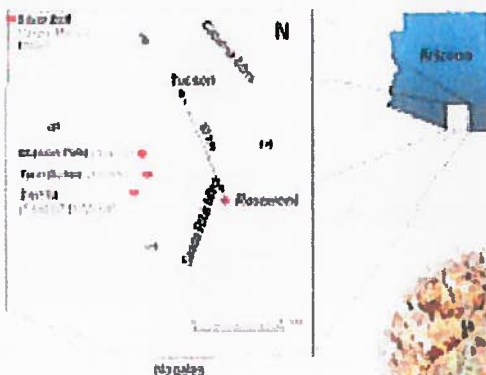
FAST-TRACK TO DEVELOPMENT

The company has been moving aggressively toward accomplishing production at the soonest possible time. By mid-2006, it had completed a positive preliminary economic assessment of the project, followed up by securing a sustainable water supply. By December 2006, results had been published from its 20,000 m in-fill drilling program and, as mentioned, a new and updated NI 43-101 compliant mineral resource statement was published in March 2007.

Augusta reversed the trend of traditional financing when it raised C\$37.5 million in a private placement with Sumitomo Corporation at a 40% premium to the current share price in June. Sumitomo acquired 8.7% of the company in the transaction, along with Harbinger Capital Partners which topped up its ownership profile to 19.9%, sending Augusta's share price up nearly 20% overnight.

The company formally filed the plan of operations for the proposed Rosemont Copper project with the US Forest Service in July, completing the first step in the permitting process. The comprehensive report outlines plans to construct, operate and reclaim the Rosemont Copper mine, and takes a best-practice approach to process technology. It uses cutting-edge water, energy, land conservation and re-vegetation techniques, including integrated reclamation, a positive water balance and the elimination of a conventional tailings pond.

Once approved, the final Rosemont plan of operations becomes a binding document that assures the plan's commitments, including reclamation and closure funding guarantees.



A FEASIBLE PLAN

The final feasibility study published last month calls for the use of modern open-pit mining techniques, given the fact that a significant portion of the mineralised material is close to surface. The Rosemont mineral reserve is composed of two distinct types of ore, sulphides and oxides. Sulphide ore will be crushed and reduced to concentrates (84% recovery rate), which will then be transported by highway haul trucks to a concentrate smelter and refinery and eventual shipment to market. Oxide ores will be transported from the open pit by haul trucks for dumping onto lined pads for subsequent leaching with weak acidic solution at a 65% recovery rate to produce high-purity copper cathode plates.

Mining operations are estimated to produce an average 234 Mlb/y of copper (14 Mlb/y in oxides), 4.5 Mlb/y of molybdenum, and 2.65 Moz/y of silver. The capital-cost estimate for the Rosemont mine including all contingencies is projected at US\$797 million, reflecting a slight increase from the preliminary assessment estimate due to higher costs for mining equipment and the inclusion of an oxide plant.

The financial analysis in the final feasibility study completed by M3 Engineering of Tucson, Arizona, reflected positive financial returns.



Using 24-month forward prices for the first year trending down to \$1.50/lb copper long-term price over the next four years, the NPV (after tax/discounted 5%) was valued at nearly C\$1 billion with an IRR of 20.9% and a payback of three years. For full details please see full report posted at www.augustaresource.com

Augusta's current schedule calls for the mine to enter pre-production in the second-half 2009 and ramp up to full production of 27.38 Mt/y by 2011.

At present, the company has C\$37 million in its treasury, which Mr Clausen indicates is more than sufficient to proceed with continuing development and permitting programmes. He also says the company has already explored options for financing the capital expenditures required to

bring the project into production and will likely be able to clarify those plans by Q4 07.

Ultimately, Augusta's goal is first to join the ranks of the world's mid-tier copper producers and then use the cash-flow generated from that production to further develop into a true, world-class mining corporation.

VITAL STATISTICS

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CONTACT

Investor relations: Marlo Hamer-Jackson
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SHARE INFORMATION

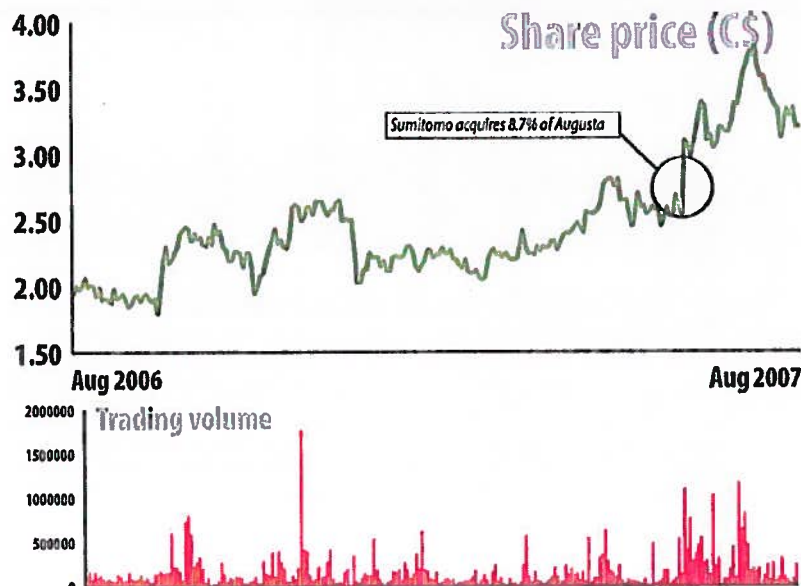
Listed: AMEX, TSX
Symbol: AZC
Issued and outstanding shares: 88,583,061
Convertible securities (including warrants and options): 18,739,599
Fully diluted: 107,322,660
Market cap: C\$300 million
Net cash: C\$37.5 million
Shareholders: Harbinger Capital Management 19%, management 18%, Front Street 12%, Osprey Management 9%, Sumitomo Corporation 8%, Goodman & Company 8%

ASSOCIATES

Transfer Agent: Computershare Trust Company
Auditor: Ernst & Young Inc
Legal counsel: Faskin Martineau DuMoulin

PEER GROUP

Chariot Resources
Sherwood Copper
Peru Copper



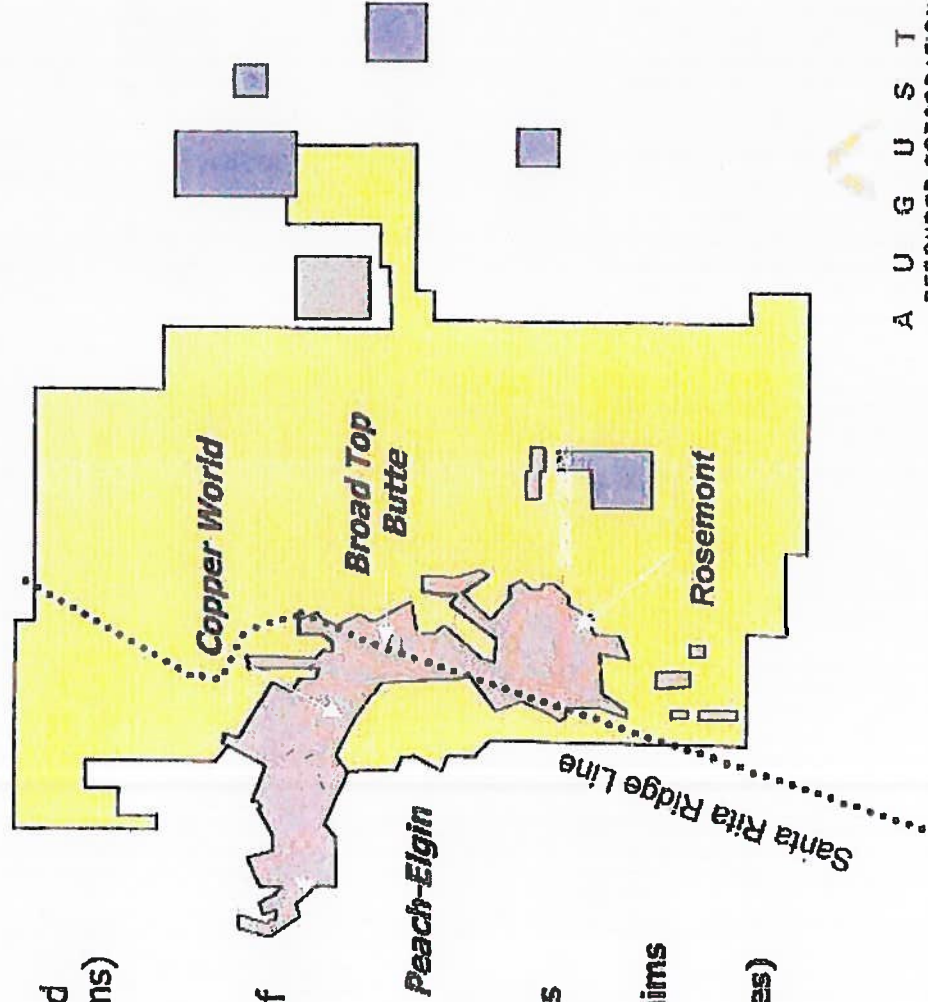
The Right Place: Huge Land Position

TSX: SGC
AMEX: SGC

- 3,700 acres of private land (fee land + patented claims)
- Over 14,000 acre land package
- More than 20,000 acres of grazing lease

Legend

- Patented Mining Claims
- Unpatented Mining Claims
- Fee Land (cattle ranches)



AUGUSTA
RESOURCE CORPORATION



Since 1948, Farmers Investment Co. (FICO) has farmed in the upper Santa Cruz River Valley. Throughout its history, conservation and sustainable use of water resources have been guiding principles for FICO.

Background

In 1948, Keith Walden purchased the Continental Farm, between what is today Green Valley and the Town of Sahuarita. Keith initially farmed cotton while experimenting with other crops such as lettuce, watermelons and alfalfa. In the late sixties, Keith settled on pecans, in part due to their compatibility with the consistently sunny Sonoran Desert climate, and completely converted FICO farms to pecan orchards. Today, FICO is led by Dick Walden, Keith's son, and is the world's largest integrated pecan farm on 7,000 acres.

Crop Irrigation

Currently, FICO irrigates its pecan trees with groundwater as permitted by the Arizona Department of Water Resources (ADWR). In 2010, FICO pumped just over 25,000 acre/ft of groundwater water for irrigation -- substantially below FICO's groundwater allotment of almost 35,000 acre/ft. The ADWR conservatively estimates that 25% of the groundwater used by FICO is naturally recharged back into the aquifer. This means that FICO's net groundwater consumption for irrigation was, most recently, approximately 18,750 acre/ft.

Agriculture groundwater pumping is subject to the strict requirements of the 1980 Groundwater Management Act. This includes the restriction that no new acreage be irrigated, resulting in a cap on FICO's groundwater use. Additionally, FICO and other agriculture users must comply with management plans that compel conservation.

The Central Arizona Project

Completed in 1992, the Central Arizona Project (CAP) is a 336-mile aqueduct that transports water from the Colorado River to the cities, towns

and farms in Maricopa, Pinal and Pima Counties, the heart of Arizona. The CAP aqueduct terminates near Sahuarita. The CAP enables Arizona to use its allocation of renewable Colorado River water to replace groundwater

pumping. FICO received an allocation of CAP water, but is unable to use its entitlement because of a lack of infrastructure to transport this water from the CAP terminus to FICO's farmland.

As a result, FICO has proposed the construction of a regional CAP pipeline to transport water to its Sahuarita Farms. This will allow FICO, other water companies, current CAP allottees, and those with recharge obligations (e.g., developers) to utilize this available, renewable water supply instead of groundwater. This will be a major step to groundwater sustainability in our region.



FICO's Groundwater Saving Facility (GSF)

Recharging renewable water into underground aquifers is an important, cost-effective method for conserving groundwater consistent with the goals of the 1980 Groundwater Management Act. With respect to CAP water, groundwater recharge can occur in two ways. First, CAP water can be stored underground by direct recharge into an aquifer for future use. Alternatively, CAP water can be used instead or "in-lieu" of groundwater. This leaves the groundwater in the aquifer for use by future generations. In other words, if FICO uses CAP water for irrigating its pecan trees and does not pump the groundwater it is entitled to, that is a form of recharge.

Building on its groundwater conservation efforts, FICO sought the designation of its farmland as a GSF in 2001. The proposed regional CAP pipeline and the GSF will enable FICO to fully use its CAP allotment for irrigation instead of pumping an equivalent amount of groundwater.

The FICO GSF will also allow others with CAP allotments to "store" their water so that it is available to meet future demand. These other users can provide their CAP water allocation to FICO, which FICO will then use for irrigation "in-lieu" of pumping groundwater. Through an ADWR permitting process, this mechanism will create water storage credits for the other CAP users, and thus saving groundwater for use by future generations.

New Technology

Whenever feasible, FICO also employs best available technologies to reduce its consumption of irrigation water. For example, FICO has used lasers and GPS guided tractors to level its farmland to reduce runoff and achieve maximum

irrigation efficiency. Where feasible, FICO also utilizes sprinkler irrigation.

Continued advancements in farming technology will result in further conservation of water used for irrigation.

The Future

As the region grows, the availability of water resources will largely determine the character of this future growth. As farmland is inevitably converted to other uses such as housing, commercial and industrial development, water demand will also change. Recently, a water users group from the upper Santa Cruz River Valley concluded that water used for farming in this region is expected to decrease a third by 2030 through conversion of farmland to other uses.

Conclusion

FICO is committed to leading a regional effort to extend Central Arizona Project to its Groundwater Savings Facility, to benefit ALL users throughout the Santa Cruz River Valley. Conserving our best quality groundwater is essential to Arizona's future economic prosperity.



Investigative**MEDIA**

Cyanide Beach Synopsis

InvestigativeMEDIA's 24-minute video reveals the deceptive business tactics of Augusta Resource Corporation's top business executives when they operated a gold mine in Sardinia, Italy between 2003 and 2007.

Augusta Resource owns the Rosemont Copper Company, which is seeking government permits to build a mile-wide, half-mile deep copper mine in the Santa Rita Mountains on the Coronado National Forest southeast of Tucson.

Six of Augusta's current and former directors also served on the board of Sargold Resource Corporation. Sargold owned a gold mine near the small farming village of Furtei in southern Sardinia.

The common Sargold and Augusta directors include: Augusta Chairman Richard Warke, Augusta President and CEO Gil Clausen, and directors Donald B. Clark, Robert P. Wares and Christopher M. H. Jennings. Former Augusta director Michael A. Steeves also served on the Sargold board. (Clark resigned from the Augusta board on Nov. 12, 2012.)

"Cyanide Beach" documents Sargold's business history in Sardinia including:

- Failing to pay local contractors, forcing vendors to obtain court judgments;
- Misspending a \$787,000 Sardinian government loan that was supposed to be used to develop an underground mine;
- Issuing misleading press releases to investors, including a release that overstated gold reserves in Furtie forcing the Toronto Venture Stock Exchange to require the company to retract the projection.
- Using its obligation to implement environmental restoration of the Furtei gold mine as leverage with Sardinian government officials in a failed attempt to gain gold mining rights elsewhere in Sardinia;
- Failing to disclose Mr. Warke's personal bankruptcy in regulatory filings between 2003 and 2005;
- Failing to disclose to investors in annual proxy reports that a Cayman Islands hedge fund controlled more than 10 percent of Sargold's stock between 2005 and 2007.

Sargold's conduct in Sardinia left a lasting impression on its former business partners. Franco Cherchi, a former president of Sargold's Gold Mines of Sardinia subsidiary, reported directly to Mr. Warke is interviewed in his office in Iglesias, Sardinia.

When asked if Mr. Warke was a man of his word, Cherchi replied with smile:
"When it's no longer convenient for him, he withdraws the promise."

Additional information on Sargold and a detailed business history of Mr. Warke, and his long time associate, Mr. Clark, is available at www.investigativemedia.com.

Jaguar photo taken near Rosemont

Cat wasn't at mine site, but image raises new conservation questions



NOVEMBER 25, 2012 12:00 AM • TONY DAVIS ARIZONA DAILY STAR

An endangered jaguar's spotted tail was photographed this fall in the northern Santa Rita Mountains, not far from the proposed Rosemont mine site, according to public records and Forest Service officials.

This jaguar's presence in the northern Santa Ritas was discussed in emails from a Forest Service biologist to the State Game and Fish Department - emails recently obtained by the Star under the State Public Records Act.

The mine's potential impact on the jaguar is under study by the U.S. Fish and Wildlife Service, the chief enforcer of the U.S. Endangered Species Act. The Forest Service has already written a report, back in June, saying the mine is "likely to adversely affect" the jaguar species.

The two agencies must decide, working with the mining company, what - if any - restrictions or changes they would require for the mine to

protect the jaguar and nine other federally listed species in the area. The wildlife service's Rosemont biological opinion is due by Dec. 20.

A Rosemont Copper consultant's report said the mine isn't likely to affect the jaguar species or proposed jaguar critical habitat, which spans 838,000 acres including much of the mine site. The November 2012 report from Rosemont Copper consultant Westland Resources acknowledges that the mine could affect individual jaguars, but says the male jaguars that could be using the northern Santa Ritas have little influence on broader jaguar populations.

The company has, however, proposed to place a conservation easement on a private, 1,200-acre ranch near Sonoita Creek in Santa Cruz County to limit or stop damaging land uses there to protect the jaguar and seven other imperiled species known to live near the mine site. The area, with six acres of open water in two large ponds, would be fenced to protect open water and wetlands, drainages, seasonal ponds and riparian habitat. (See accompanying article.)

In a statement, Rosemont Copper Vice President Jamie Sturgess said that as part of its cooperative efforts with Game and Fish, it has been informed, "in general terms," of a recently

reported jaguar sighting on ranchlands it owns in the Santa Ritas, "but not in the area of the Rosemont Copper project site." The company deferred all other inquiries to Game and Fish.

Environmental groups said the report of a jaguar photo in the Santa Ritas underscores what one group, the Sky Island Alliance, called "the devastating harm that this mine would inflict on this special place."

"Jaguars are valuable indicators of ecosystem health and clearly the Santa Ritas have what the jaguar needs - space to roam, food, cover and connections to other mountains," said Sergio Avila, manager of the alliance's Northern Mexico conservation program. "Protecting the Santa Rita Mountains from this mine is more important than ever, a once-in-a-lifetime opportunity."

Not in actual mine area

In an Oct. 10 email to Game and Fish, Forest Service biologist Larry Jones said the jaguar photo was taken within a 145,000-acre "Rosemont Action Area" where the Forest Service is studying the mine's potential impacts on biological resources - but outside the formal mine project area boundaries. That area spans about 6,990 acres and includes the mine site and related facilities.

Last week, Coronado National Forest Supervisor Jim Upchurch said the jaguar photo was taken in an area "adjacent to" and likely "pretty darned close" to the Rosemont project area. In his email, biologist Jones called the jaguar's existence there "crucial info, because this would provide unequivocal proof that jaguars have been detected within the action area."

He wrote that this jaguar's presence will mean "absolutely no change" in the service's June report saying the mine will adversely affect the animal. But for the Fish and Wildlife Service, this Santa Ritas photograph will be considered in its deliberations because "it adds clarity," said Jeff Humphrey, a wildlife service spokesman.

"Rather than connecting very old dots on a map, we now have something that is new and precise," he said.

Game and Fish, which received the jaguar tail photo from a hunter, declined to share more specific location information or release an uncropped photo of the jaguar tail that it said would pinpoint its location because it shows a well-known landmark the jaguar could return to. Release of that photo could lead to illegal "take" of an endangered species, Game and Fish Deputy Director Gary Hovatter wrote the Star Nov. 16.

This photo was taken Sept. 23 by a remote camera 30 to 50 feet from the animal, Game and Fish records show. At first, the agency sought outside scientific opinion as to whether it was a jaguar's or an ocelot's tail. Later, it said its experts and most outside experts agreed the photo showed a jaguar's tail, a small portion of its hind quarter and a rear foot.

second report of jaguar

This is the second jaguar report in the Santa Ritas in two years. On June 2, 2011, a U.S. Border Patrol agent flying over the mountains spotted a large, spotted cat he believed was a jaguar walking in the Mansfield Canyon area on the north face of Mount Wrightson. Game and Fish officials could not confirm the report but they did give it some credibility.

That happened about 13 miles south of the smaller Rosemont mine project area and about eight miles south of the much larger action area, said the Forest Service's June report on the mine's impacts on protected species.

On Nov. 19, 2011, a mountain lion hunter photographed a male jaguar in the Whetstone Mountains in Cochise County, about five miles south of Interstate 10, Game and Fish records show. That was about 25 miles east of the Rosemont project area and about 10 miles east of the action area.

But until now, there have been no confirmed jaguar sightings inside the action area since 1961, when one occurred in the Empire Mountains, the Forest Service's June report said. Three confirmed jaguar records occurred in the Santa Ritas in 1917, 1918 and 1919.

The Forest Service's biological report said that because jaguars have large home ranges and males may take long forays, the Rosemont project area could be within one or more jaguars' home ranges. Jaguars living near the mine would likely alter their behavior to avoid light, noise, vibrations and habitat removal, the report said.

Possible lighting impact

The mine has a light pollution mitigation plan, but its lighting still could disrupt the jaguar's dispersal, communication patterns and hunting success, and noise and blasting from mine construction could change the animal's dispersal patterns and damage its hearing, the report said.

But the Rosemont Copper report said the mine's impacts on jaguar populations are likely to be low because, among other reasons, the odds of female jaguars in the U.S. are low and because the influence of male U.S. jaguars on Sonoran jaguar populations - where females are known to live - is small. It's 130 miles from the Mexican border to the Sonoran breeding population, and a male jaguar in that area must traverse considerable, unsuitable habitat, the Westland report said.

Even if those jaguars could breed in Sonora, they're likely to have little effect on its jaguar population, said the Westland report, which didn't mention the recent jaguar photograph. Also, because no records exist of jaguar breeding in the U.S. for 60 years, the males that do exist here likely came from the Sonora population and can't, by themselves, repopulate the jaguar species, the report said.

Finally, the Rosemont project area contains about 5,000 acres of jaguar critical habitat, only about 0.6 percent of the entire proposed habitat area, Westland said, making it unlikely the mine will damage the primary vegetation and other elements of that habitat, Westland said.

But the presence of a jaguar so close to a mine boosts the threat for illegal "take," said Patrick Parenteau, a Vermont law professor who was involved with endangered species litigation as a federal official and a National Wildlife Federation attorney.

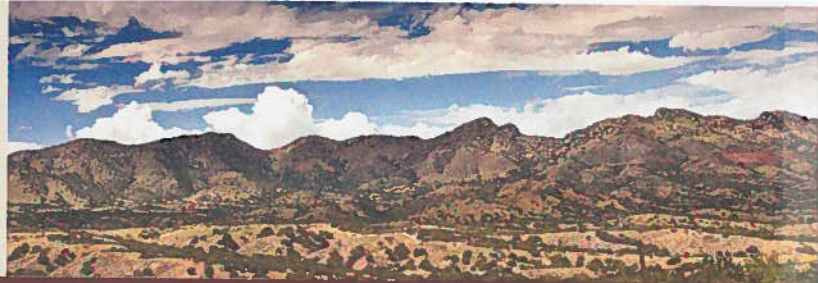
"The more you can show that mining activity could harm or harass an individual animal, the more potential there is for take," Parenteau said. "It does matter how close the animal is."

Contact reporter Tony Davis at tdavis@azstarnet.com or 806-7746.



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ISSUE BRIEF: The Devastating Impacts of the Proposed Rosemont Mine to Southern Arizona

OVERVIEW

Canadian-owned Rosemont Copper is seeking permits to build a massive open-pit copper mine on 4,000-acres in the Santa Rita Mountains just south of Tucson. This mine would have devastating impacts on Southern Arizona's water, air, wildlife and economy.

There is unprecedented opposition to the Rosemont Mine. Political, business, tribal and environmental leaders have joined with citizens from all walks to oppose this project. Their opposition is based on its impacts to the quality of life and economy of BOTH current and future Southern Arizona residents and businesses.

THE COMPANY

Rosemont Copper is owned by Augusta Resource, a publicly-traded junior Canadian mining company headquartered in Vancouver, British Columbia. Augusta is a highly leveraged company whose corporate leaders have a history of personal and corporate bankruptcies, insider trading, stock exchange delistings and cease trade orders.

To fund the Rosemont mine, Augusta is seeking hundreds of millions of dollars in loans from foreign investors based on representations it is making about the quality of the ore body and the likelihood it will receive the necessary permits and regulatory approvals. Rosemont has repeatedly promised investors that these permit approvals are imminent only to have the relevant government agencies request more information from the company about its changing mine plans. Some of the permits that have been approved have been appealed because they fail to address the devastating environmental impacts of the Rosemont mine.

1872 MINING LAW AND ROSEMONT COPPER

Rosemont Copper is using a law signed by President Ulysses S. Grant intended to encourage development of the Western U.S. This law allows anyone to stake a claim on public lands, pay a nominal fee each year, and conduct mining operations. The mining companies that are blasting giant holes and dumping

toxic mine waste on public lands in Arizona and across the West make millions, often billions of dollars in profits for their executives and investors, but they don't pay a penny in royalties to U.S. taxpayers.

When the mining law was passed in 1872, Arizona was still a territory with only 9,658 residents - Tucson only had 3,224 residents. Today, Rosemont is using this law to build a **massive open pit copper mine adjacent to a metropolitan area of almost 1 million residents**, threatening drinking water and polluting the air.

MINE IMPACTS

Rosemont says it will use 21st Century technologies to protect the environment. However, when you get beyond Rosemont's PR and examine its proposal, you will see that it is, as one of its lawyers said, "a typical open pit copper mine" that will be a mile wide and half-mile deep, with toxic mine waste piled hundreds of feet high in the drainages of a critical watershed. **Never has there been a copper mine of this type and size anywhere in the world that has not created significant environmental problems.** To suggest otherwise, is dishonest.

It is indisputable that the proposed Rosemont Mine will cause irreparable environmental damage to the legacy we leave to future generations. The Arizona Game and Fish Department said that the Rosemont Mine would, **"render the northern portion of the Santa Rita Mountains virtually worthless as wildlife habitat and as a functioning ecosystem..."**

WATER

The proposed Rosemont mine threatens two watersheds that provide drinking water to the Tucson metropolitan area. The Cienega Creek and Davidson Canyon watershed drain the northeast flank of the Santa Ritas where the mine would be built. This watershed is estimated to provide 20% of the groundwater recharge to the Tucson Basin. The proposed Rosemont mine would pollute a crucial drinking water source with mercury, arsenic, lead and other dangerous poisons.

To the west of the proposed mine, in the Santa Cruz River Valley near Sahuarita and Green Valley, Rosemont is proposing to pump potentially unlimited amounts of groundwater, southern Arizona's highest-quality water for transport to its mine 14-miles away. Rosemont's massive open-pit copper mine is exempt from groundwater pumping limits that apply to every other industrial, agricultural, and residential user in the state. Despite Rosemont's claims and promises, it can pump as much groundwater as it wants no matter how much it might harm farmers, ranchers, residents or businesses in the area.

Given its size and the hydrology of the site, the proposed Rosemont Mine would permanently compromise water supplies for future generations of southern Arizonans.

AIR POLLUTION

According to both the Forest Service and the Environmental Protection Agency, the mine would violate clean air standards that protect public health. Rosemont's mining operations would pour arsenic, lead and other hazardous pollutants into our air along with nitrogen dioxide, ozone, particulates and other poisons.

Particulate pollution from mining is a serious threat to public health. Waste dumps at existing mines in southern Arizona are major sources of air pollution, with blowing dust and particulates often leading to "white-out" conditions. Exposure to particulate pollution can cause a wide range of health problems including premature death, increased hospital and emergency room visits for cardiovascular and respiratory problems, and development of chronic respiratory disease.

Air pollution from the proposed Rosemont Mine could result in Pima County being designated as a non-attainment area for national air pollution standards, thus requiring the installation of widespread, expensive pollution controls on other businesses throughout the County.

The Rosemont Mine also would reduce visibility and impair regional scenic vistas including those at Saguaro National Park, which has expressed serious concerns over the mine's emissions. Saguaro is a significant community resource, attracting more than 600,000 visitors per year.

ECONOMIC IMPACTS

Rosemont touts its purported economic benefit to the region as justification for its destruction of our mountains and the polluting of our water and air. However, what Rosemont fails to discuss are the economic costs of its proposed mine. Even using Rosemont's inflated estimate of jobs created, the potential negative impacts outweigh any modest benefit of

the mine. Rosemont estimates an annual payroll of about \$14 million from the mine. This estimate does not take into account that many of these jobs will be filled by non-residents.

Rosemont would only directly employ a maximum of about 400 workers at its peak production. This is less than one-quarter of one percent of Pima County's total private-sector workforce. As a result, the relative economic contribution of the mine is significantly overshadowed by its adverse impacts on the regional economy.

Also, copper mining employment in Arizona has historically been unstable. As a result, the number of workers at the mine can be expected to be lower much of the time.

The adverse economic impact of the proposed Rosemont Mine on the region's tourism industry would be significant. Tourism in southern Arizona is a \$2.5 billion-dollar-a-year industry and employs more than 45,000. Destroying a prominent and popular mountain range would certainly impact this economic sector.

This mine also threatens the world-class astronomy occurring in southern Arizona. This research brings in millions of dollars of economic activity and has resulted in southern Arizona being deemed "Optics Valley."

Finally, having available supplies of clean drinking water is essential to our economic future. The proposed Rosemont Mine indisputably threatens our water and thus threatens our economic future.

The mountains surrounding this valley are a significant reason why people are attracted to this region as a place to live. The Rosemont Mine would destroy a significant portion of the Santa Rita Mountains, making them useless for outdoor recreation, thus leaving our area less attractive to those potential new residents seeking a healthy outdoor lifestyle.

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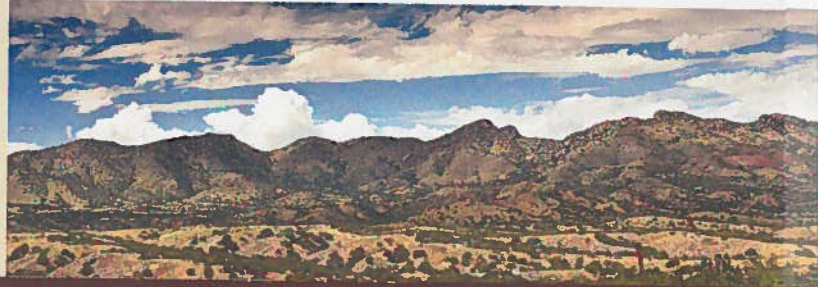
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Copper production is essential to our economy. However, there are some places that mines just don't belong, and southern Arizona's Santa Rita Mountains is one of them. Existing mines currently operating in southern Arizona and elsewhere can provide the copper needed for our economy. The Santa Ritas have a higher value to our region's economy and quality of life and need to be protected now and for future generations.



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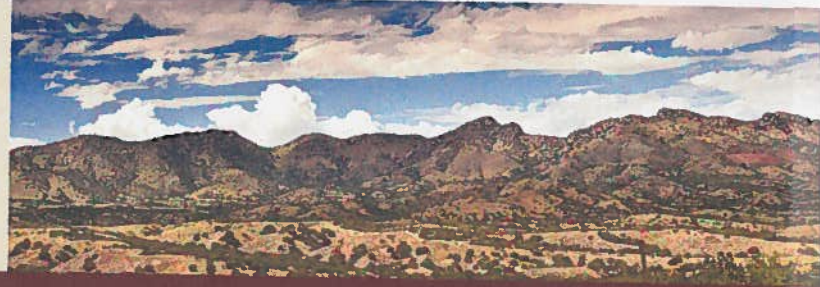
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ROSEMONT MINE: Remaining Permits and Decisions

Rosemont Copper has repeatedly claimed that the company needs only "one more permit" before it can begin blasting its massive open-pit copper mine in the Santa Rita Mountains near Tucson. They're not telling the truth. Before the Rosemont mine can ever proceed, complex and critically important permits with strict regulatory provisions to mitigate the major impacts this project poses to southern Arizona's water supplies, air quality and economy must first be issued. If regulators conclude that Rosemont cannot mitigate these impacts, they can refuse to issue these permits. Alternatively, if the agencies find that data and modeling for the permits is inaccurate or incomplete they can require Rosemont to redo its analysis.

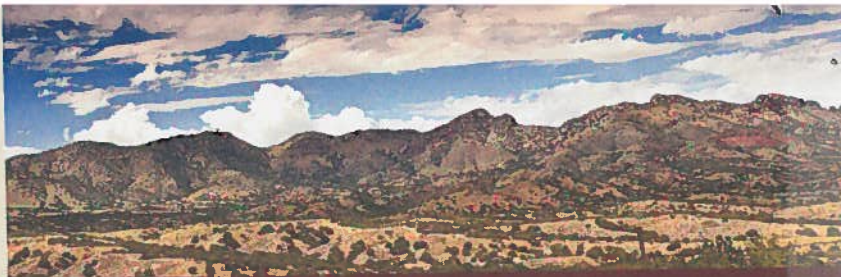
Every open-pit copper mine that's ever been dug has polluted the air and nearby water supplies with mercury, lead, arsenic or other poisons. The Rosemont Mine would not be any different.

- **The US Forest Service has yet to complete a final Environmental Impact Statement (EIS) and issue a Record of Decision.** In 2012, the Environmental Protection Agency gave the Rosemont's draft EIS its lowest possible rating and concluded that it was one of the worst EIS's ever reviewed. The Forest Service process has been delayed in large part by Rosemont's failure to provide requested information and by the Company's decision to dramatically change its mining proposal in July 2012.
- **The Clean Water Act permit that allows Rosemont to pollute area waterways is still pending with the US Army Corps of Engineers.** As with the EIS, the Environmental Protection Agency concluded in 2012 that the Rosemont Mine would cause "significant degradation" of area waterways, including "substantial and unacceptable impacts" to Davidson Canyon and Cienega Creek.
- **The US Fish and Wildlife Service (FWS) is assessing whether the Rosemont Mine would jeopardize nearly a dozen threatened and endangered species, including the jaguar, ocelot and southwestern willow flycatcher before it issues its Biological Opinion.** The FWS is also in the process of designating critical habitat for both the jaguar and the southwestern willow flycatcher that may include the Rosemont Mine site. The Arizona Department of Game and Fish has concluded that the Rosemont Mine "will render the northern portion of the Santa Rita Mountains virtually worthless as wildlife habitat and as a functioning ecosystem, and thus also worthless for wildlife recreation." Federal agencies are not allowed to approve actions that destroy or adversely modify critical habitat for endangered species.
- **The Aquifer Protection Permit issued by the Arizona Department of Environmental Quality in 2012 is still under appeal.** The appeal is on the grounds that it fails to protect area groundwater supplies. The Water Quality Appeals Board has not yet ruled on the appeal.
- **The air pollution permit issued by the Arizona Department of Environmental Quality (ADEQ) in January 2013 has been appealed.** This appeal is on the grounds that Rosemont manipulated data in its modeling to underestimate air pollution from the mine and pulled a bait and switch by announcing that it would operate under a different mining plan than the one submitted to ADEQ.
- **The Forest Service must also consult with the State Historic Preservation Officer and, potentially, the Advisory Council on Historic Preservation.** This process ensures that the proposed Rosemont Mine doesn't adversely affect historic and cultural sites, including traditional lands of the Tohono O'odham Nation and other Native American Tribes.



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ROSEMONT MINE: Deceptions

Rosemont Copper's high-powered PR campaign tells citizens that its open pit mine will be a "state-of-the-art, first class mine" that will employ "21st Century" technologies. The company, however, tells Arizona regulators the mile-wide, half-mile deep mine is just another "typical open pit copper mine."

Augusta Resource Corp. the Vancouver, B.C. owner of the Rosemont Copper Company, repeatedly states in regulatory filings that it is prepared to immediately begin construction once it receives final permits. However, the company fails to explain how this is possible since the company suspended engineering on the mine in July 2011.

Coronado National Forest Jim Upchurch cast doubt on Rosemont Copper's truthfulness in regulatory filings when he ordered his staff to review the accuracy of Rosemont's explanation for its sudden abandonment of the mining plan that was the basis of the Draft Environmental Impact Statement. Once the comment period was closed on the DEIS, Rosemont released a new mining plan that increased sulfide ore production by 34 percent.

A central pillar of Augusta Resource Corporation's PR campaign is that the Rosemont Copper project will reduce the nation's dependence on imported copper. In fact, Augusta has already pledged 50 percent of its copper production to Korean and British partners and states in regulatory filings that it is in negotiations with foreign smelters to purchase the balance.

Rosemont Copper has issued wildly divergent estimates of the company's impact on jobs in Arizona ranging from 406 to 9,000 jobs. Augusta Resource's regulatory filings, however, state that Rosemont's employment will average 448 workers over the life of the mine.

Rosemont executives have repeatedly made statements to the press that the company has no plans to develop three adjacent mining claims to the Rosemont mine site. The claims cross over the ridgeline of the Santa Rita Mountains and onto the range's western slope. However, the company is telling regulators and investors that one of the claims could be included in the Rosemont Copper project as a "satellite development".

Augusta Resource Corp. states in regulatory filings that the U.S. Environmental Protection Agency only plays an "advisory" role in whether the company receives a Section 404 Clean Water Permit from the U.S. Army Corps of Engineers. Augusta, however, ignores that fact that EPA can veto any 404 permit issued by the Corps.

Rosemont Copper claims it doesn't have to abide by Pima County's outdoor lighting ordinance and that it plans to voluntarily reduce lighting impacts below the "intent" of the county's 2011 code. Pima County, however, made it clear in a September 2012 letter to the Coronado National Forest that the lighting code applies to the Rosemont mine.

source: www.RosemontMineTruth.com